COLLEGE COST REDUCTION AND ACCESS ACT OF 2007

Short Title: CCRAA

College Cost Reduction and Access Act of 2007 (CCRAA)

- **In part, Congress's response to the problem of high monthly repayment obligations for educational debt of graduate and professional students who entered lower-paying public interest service jobs.**
  - ***Signed by the President on 27 Sep 07.***
  - ***Implementing regs. still to be written.***

What Qualifies as a Public Interest Service Job?

- **Depending on how "public interest service" is defined in regulations that will probably be written during 2008, that description may or may not capture all public interest lawyers and their staffs. However, "military service" is specifically listed as a qualifying public interest service job under section 401 of the CCRAA.**

CCRA Basics

- **Sections 203 and 401 of CCRAA**
  - ***Section 203*: creates income-based repayment (IBR) option for repaying student loans.**
  - ***Section 401*: provides for loan forgiveness after 10 years of public interest service.**

Terms of Interest

- **Income-contingent repayment (ICR)**
- **Income-based repayment (IBR)**
- **Government-guaranteed loans**
- **Federal Direct Consolidation Loan**

Income-Contingent Repayment (ICR)

- ***ICR is calculated as:***

20% x (AGI – applicable Fed. poverty level)

12

Income-Based Repayment (IBR)

- ***IBR is calculated as:***

15% x (AGI – (150% x applicable Fed. poverty level))

12

Government Guaranteed Loans

- **Government-guaranteed loans include Stafford and Grad Plus loans.**
  - **Grad Plus loans did not become available until 2006.**
    - **Both Stafford and Grad Plus loans are eligible for repayment via ICR and IBR as well loan forgiveness (after 10 years of public service).**
    - ***Private and commercial loans are not eligible for ICR or IBR repayment or for forgiveness.***

Direct Loans
William D. Ford Federal Direct Loan Program

Federal Direct Consolidation Loans

- **Very few law schools are part of the federal direct lending program.**

- **IOT be eligible for ICR/IBR and loan forgiveness the borrower must consolidate his government-guaranteed loans (Stafford/Grad Plus) into a Federal Direct Consolidation Loan (unless he already has a federal direct loan, which is unlikely).**

Lower Monthly Repayment (Sec. 203)

- **Single borrower owes $100,000 at 6.8% (current Stafford rate) w/ AGI of $40,000 in first year after graduation.**
  - **10 year standard repayment plan = $1,151 a month**
  - **Income-based repayment (IBR) = $309 a month**
    - ***The IBR amount will rise as borrower's income rises—but that increase will be mitigated by parallel increases in the federal poverty level. Assuming a 3% increase in both AGI and federal poverty level, monthly payments in above example would be $318 in the 2nd year and $403 in the 10th year.***

Loan Forgiveness (Sec. 401)

- **Single borrower owes $100,000 at 6.8% (current Stafford rate) w/ AGI of $40,000 in first year after graduation.**
  - **Standard repayment at 6.8% over 10 years would amount to a total repayment of $138,096.**
  - **Income-based repayment over 10 years would amount to approximately $42,448 repaid—with approximately $125,552 forgiven by federal government after 10 years of public service.**
    - ***Numbers would vary based on increases in AGI and poverty level over the subject 10 years.***

Loan Forgiveness Table

- **As already noted, as income increases, the monthly payment amount increases and, consequently, the amount of forgiveness at the 10 year public interest service mark decreases. The below table illustrates this point (Highlighted in yellow is our previous example using the IBR option).**

Starting Income	Annual Increases	Monthly Payment, Year 1	Monthly Payments, Year 10	Total Amount Paid over 10 Years	Amount Forgiven After 10 Years
$35,000	3%	$246	$321	$33,850	$134,150
$40,000	3%	$309	$403	$42,448	$125,552
$40,000	4%	$309	$462	$45,701	$122,299
$40,000	5%	$309	$526	$49,132	$118,868
$50,000	3%	$434	$566	$59,644	$108,356
$50,000	4%	$434	$640	$63,710	$104,160
$55,000	4%	$496	$729	$72,715	$56,019

JA Graduated Before 1 Oct 07

Already have Federal Direct Loans

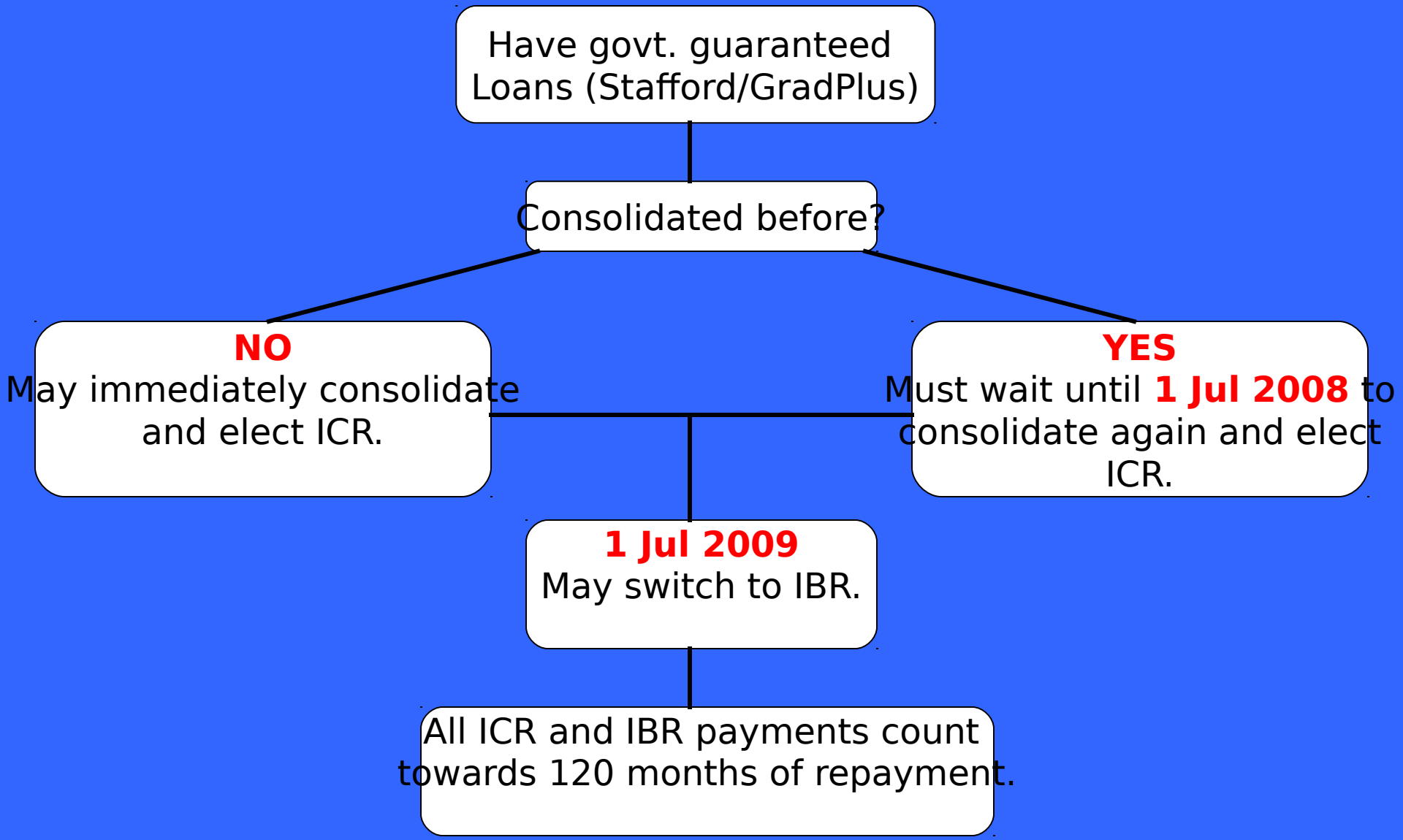
Most JAs are unlikely to already have Federal Direct Loans.

1 Oct 2007
May immediately elect ICR.

1 Jul 2009
May switch to IBR

All ICR and IBR payments count towards 120 months of repayment.

JA Graduated Before 1 Oct 07


Have govt. guaranteed Loans (Stafford/GradPlus)
Consolidated before?
NO
May immediately consolidate and elect ICR.
YES
Must wait until 1 Jul 2008 to consolidate again and elect ICR.
1 Jul 2009
May switch to IBR.
All ICR and IBR payments count towards 120 months of repayment.

JA Graduated After 1 Oct 07 but Before 1 Jul 2008

Have govt. guaranteed Loans (Stafford/GradPlus)

Must Consolidate to a Federal Direct Loan

Elect ICR.

1 Jul 2009
Switch to IBR.

All ICR and IBR payments count towards 120 months of repayment.

Already have Federal Direct Loans

Elect ICR

1 Jul 2009
Switch to IBR.

All ICR and IBR payments count towards 120 months of repayment.

JA Graduated After 1 Jul 08 but Before 1 Jul 2009

Have govt. guaranteed Loans (Stafford/GradPlus)

Must Consolidate to a Federal Direct Loan

Elect ICR

1 Jul 2009
Switch to IBR.

All ICR and IBR payments count towards 120 months of repayment.

Already have Federal Direct Loans

Elect ICR

1 Jul 2009
Switch to IBR.

All ICR and IBR payments count towards 120 months of repayment.

JA Graduated After 1 Jul 09

The law is now in full effect.

Have govt. guaranteed Loans (Stafford/GradPlus)

Must Consolidate to a Federal Direct Loan

Elect IBR

All ICR and IBR payments count towards 120 months of repayment.

Already have Federal Direct Loans

Elect IBR

All IBR payments count towards 120 months of repayment.

ICR or IBR may be elected in either scenario. However, the IBR option will allow for smaller monthly payments and, consequently, greater loan forgiveness at the 10 years of public interest service mark.

CCRA and Taxes

- ***Tax Liability***. **Currently, the forgiveness at the end of 10 years is a taxable event. Therefore, unless the law is changed, borrowers will incur a tax liability on the amount forgiven.[1] The tax liability issue was not addressed in the Act because the legislation was developed by education committees, and tax legislation must originate in tax committees.**

  - **[1] Some are confident that the law will be reformed such that the loan forgiveness will not trigger tax liability. See, *Federal Student Loan Repayment Assistance for Public Interest Lawyers and Other Employees of Governments and Nonprofit Organizations,* 36 Hofstra L. Rev. ___(forthcoming, Fall, 2007) Philip G. Schrag.**

CCRAA and Marriage

- **Marriage Penalty. The amount of monthly repayment for married IBR borrowers is based on the combined adjusted gross income of the borrower and the borrower's spouse, even if they file separate tax returns. For two-IBR families, regulations are predicted to allow combining both the debt and the income for purposes of the calculation. However, where one spouse is an IBR borrower, and the second spouse is a non-IBR borrower, the IBR borrower's monthly payment has the potential to rise sharply.**
  - **Example: A single borrower with an income of $35,000 and a debt of $100,000 would make first-year monthly repayments of $246, but if that borrower married a non-IBR spouse with income of $65,000, the borrower's monthly repayment would balloon to $993.**

CCRAA Docs

- Report on CCRAA

Adobe Acrobat Document

- Hofstra Law Review on CCRAA

Adobe Acrobat Document

- JAS CCRAA Analysis Paper

Microsoft Office Word Document

- Federal Direct Loan Consolidation Info

Adobe Acrobat Document

- 2007 Poverty Level Guidelines

Microsoft Word Document

Questions?